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DIRECTORATE OF
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Intelligence Memorandum

The Significance Of Soviet Steel Imports In 1969

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CENTRAL INTELLIGENCE AGENCY
Directorate of Intelligence
February 1970

INTELLIGENCE MEMORANDUM

The Significance Of Soviet Steel Imports In 1969

Introduction

Recent press reports alleging extremely large, and even massive, imports of steel by the USSR have given rise to speculation that the USSR is experiencing a general shortage of steel and that Soviet purchases of steel may have a major impact on the world steel market. This memorandum examines recent trends in Soviet steel trade to ascertain (1) if there is any unusual growth in imports, (2) what types of steel are being imported, and (3) how important Soviet imports are to the world export market. In addition, this memorandum examines recent problems and difficulties of the Soviet steel industry and probable Soviet import needs in the next few years.

Soviet Imports of Steel

1. During 1960-68 the USSR imported, on the average, about 1.6 million tons of steel each year. Average annual imports in 1960-63 slightly exceeded those during 1965-68 (nearly 1.7 million tons compared with 1.6 million tons). Soviet imports of steel dropped off to less than 1.2 million tons in

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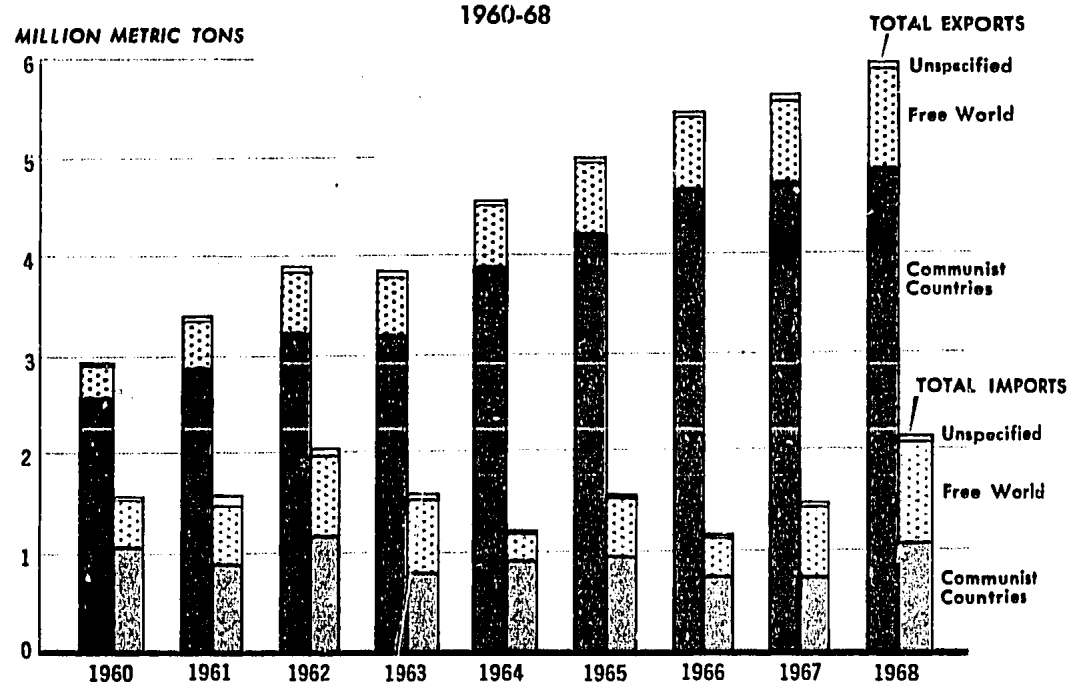
1966, the lowest point in the 1960s (see Table 1). Imports in 1968 reached a new high for the decade of nearly 2.2 million tons, but they were only marginally greater than the previous high of 2.0 million tons in 1962. On the basis of preliminary data, Soviet imports in 1969 may be expected to increase compared with 1968 but probably only modestly. The evidence for estimating an increase in imports in 1969 is that during the first ten months of 1969 shipments from West Germany and Japan -- the USSR's two most important Free World sources of steel -- somewhat exceeded shipments during the entire calendar year of 1968.

2. In 1968, Soviet imports of steel were divided almost equally between those supplied by Communist countries and those supplied by Free World countries (see the chart). Imports from the Free World registered

USSR: Imports and Exports of Rolled Steel

1960-68



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the sharpest increase in recent years, from a low level of less than 0.4 million tons in 1966 to 1.1 million tons in 1968. The latter, however, fell short of the record high of 1.2 million tons of steel imported from the Free World in 1962. During 1963-66,

Table 1

USSR: Imports of Finished Steel

Thousand Metric Tons

Country of Origin	1960	1961	1962	1963	1964	1965	1966	1967	1968
Communist countries	461.2	654.7	774.0	797.7	908.5	986.1	765.1	742.6	1,037.9
Bulgaria	--	--	--	--	--	--	5.1	58.4	138.3
Czechoslovakia	133.2	187.4	227.4	273.1	323.0	323.5	190.0 a/	176.5	264.3
Hungary	5.2	7.5	7.9	1.0	--	2.9	9.2	0.7	--
North Korea	25.5	35.3	56.9	64.9	66.9	66.5	59.8	80.4	83.9
Poland	116.9	127.0	122.3	118.1	112.2	147.6	61.2	86.0	136.2
Romania	146.1	264.9	336.4	312.7	376.8	419.7	418.8	300.1	381.8
Yugoslavia	34.3	32.6	23.1	27.9	29.6	25.9	30.0	40.5	33.4
Free World countries	1,060.0	897.2	1,165.9	758.4	339.6	563.8	379.2	754.5	1,103.5
Austria	105.9	105.4	110.4	108.6	107.2	107.7	98.5	112.6	97.8
Belgium	90.4	71.6	37.1	15.3	6.3	18.0	6.9	4.7	5.5
France	170.7	146.1	68.4	18.6	9.4	16.8	20.3	50.9	139.7
Italy	187.2	138.2	197.8	62.1	9.8	48.3	6.6	0.3	1.0
Japan	58.9	46.8	202.5	333.1	86.1	200.0	152.8	74.4	139.2
Netherlands	3.5	24.3	0.9	--	--	--	--	45.9	20.5
Norway	9.6	15.3	9.1	3.1	8.5	--	--	--	--
Sweden	11.6	4.7	11.2	66.0	54.8	48.6	42.3	43.1	81.9
United Kingdom	25.7	45.0	65.8	41.6	0.7	30.5	--	15.6	1.8
West Germany	332.1	291.3	462.7	110.0	56.8	93.9	51.3	368.1	396.2 b/
Canada	1.0	0.1	--	--	--	--	--	--	--
United States	63.4	8.4	--	--	--	--	0.5	--	--
India	--	--	--	--	--	--	--	38.9	219.9
Unspecified	9.5	7.1	83.4	34.2	0.5	11.7	13.5	16.6	33.6
Total imports	*1,530.7*	*1,559.0*	*2,023.3*	*1,590.3*	*1,248.6*	*1,561.6*	*1,157.8*	*1,513.7*	*2,175.0*

a. Estimated.

25X1

Soviet imports from Free World countries were maintained at a generally low level, reflecting, in part, the need for the USSR to use its scarce foreign exchange to purchase other commodities, particularly wheat, during those years. Imports of steel from the other Communist countries in 1968 were almost 40% above the levels of 1966 and 1967, reaching a record high of somewhat more than 1.0 million tons, but only marginally greater than the previous high in 1965.

Soviet Imports and the Domestic Supply Position

3. Imported steel makes up only a very small share of the total steel available to the Soviet economy. Moreover, the USSR regularly exports considerably more steel than it imports. Exports increased steadily from 3.0 million tons in 1960 to 5.9 million tons in 1968 (see Table 2). In contrast, imports have fluctuated between a low of 1.2 million tons in 1966 and a high of 2.2 million tons in 1968. The total imports of 2.2 million tons of steel in 1968 accounted for 3.1% of available finished steel (domestic production plus imports minus exports). During 1960-68, imports averaged 2.9% of total available steel, ranging from 1.9% in 1966 to 4.1% in 1962.

4. Although relatively unimportant in terms of total domestic supplies, the steel imported by the USSR consists of types that are of considerable importance to the domestic economy. The principal types of steel imported in increasing quantities during the past three years have been cold rolled sheet and large-diameter pipe. Cold rolled sheet has been imported for use in the manufacture of automobiles and consumer durables, such as refrigerators and washers. Large-diameter pipe has been imported for construction of pipelines needed to transport oil and natural gas from distant producing fields to domestic consuming centers and to markets in Eastern and Western Europe. Other types of steel imported by the USSR on a regular basis during the past decade are sheet and plate for structural purposes precision tubing for the chemical and petroleum industries, oilfield pipe and casings, transformer sheets, and selected types of profiles and shapes.

Table 2

USSR: Exports of Finished Steel

Thousand Metric Tons

Country of Destination	1960	1961	1962	1963	1964	1965	1966	1967	1968
Communist countries	2,571.0	2,838.6	3,249.9	3,233.1	3,799.7	4,246.3	4,661.5	4,792.3	4,916.6
Albania	21.2	18.4	--	--	--	--	--	--	--
Bulgaria	237.1	215.6	269.0	291.8	368.4	374.3	457.6	494.6	739.0
China	201.5	105.7	95.2	88.9	71.0	170.2	61.5	39.7	44.8
Cuba	79.3	189.4	200.2	103.8	120.4	135.0	199.7	189.7	182.9
Czechoslovakia	24.2	88.4	97.2	284.2	294.4	542.2	343.1	375.5	394.2
East Germany	1,283.9	1,400.3	1,555.9	1,459.2	1,747.8	1,864.7	2,099.3	2,112.1	1,943.8
Hungary	78.8	95.7	121.8	115.8	148.1	134.5	166.0	245.3	359.6
Mongolia	15.5	17.5	27.0	21.0	15.6	8.3	7.1	11.4	16.3
North Korea	2.7	8.7	12.8	10.5	9.9	8.2	6.5	10.5	9.4
North Vietnam	15.4	24.6	29.8	24.7	15.5	21.8	12.3	61.7	46.0
Poland	57.1	29.4	39.8	52.1	50.2	66.4	349.0	400.2	428.1
Romania	537.4	625.3	768.7	720.6	852.2	832.4	862.4	730.1	596.5
Yugoslavia	16.9	19.6	32.5	60.5	106.2	88.3	97.0	121.5	156.2
Free World countries	413.9	480.5	610.3	589.0	708.8	675.8	753.7	746.8	955.6
Finland	136.1	188.1	161.3	154.0	172.9	112.2	150.2	125.6	106.1
Italy	23.0	54.1	66.0	72.4	92.0	112.7	7.5	3.0	0.2
United Kingdom	--	4.1	29.3	3.9	30.8	17.1	44.6	74.9	140.9
India	66.3	40.4	147.2	50.3	51.2	33.1	33.7	18.1	24.3
Iraq	15.0	28.4	43.2	34.8	36.2	44.8	53.5	48.7	89.6
Turkey	8.0	3.5	9.6	46.5	56.1	73.4	113.0	84.5	87.3
United Arab Republic	24.6	21.5	15.9	16.2	30.3	30.2	30.9	61.5	29.5
Other	140.9	140.4	137.8	210.9	239.3	252.3	320.3	330.5	477.7
Unspecified	11.5	24.6	31.8	42.0	21.7	26.6	25.0	40.6	37.3
Total exports	*2,996.4*	*3,343.7*	*3,892.0*	*3,864.1*	*4,530.2*	*4,948.7*	*5,440.2*	*5,579.7*	*5,909.7*

5. In 1968 the USSR also imported a considerably larger volume of structural steel, such as beams and channels, than in previous years. This particular increase reflected the implementation of an agreement with India calling for annual shipments to the USSR of 200,000 tons of structural steel during 1968-70. The structural steel undoubtedly will be put to practical use in the USSR, but the agreement seems to have been motivated, in part at least, by political reasons. The Soviet order will help to insure a satisfactory level of operations at the Soviet-built Bhilai plant and permit its performance to compare favorably with that of other foreign-built steel plants in India.

Soviet Imports and the World Export Market

6. In 1968, Japan and the countries of Western Europe exported a total of 56.8 million tons of steel. Soviet imports from Japan and Western Europe were only about 0.9 million tons in 1968. Countries in Western Europe received nearly half of the exports of Japan and Western Europe, and of those directed to other areas, the United States received the largest share. Total imports of steel by the United States in 1968 amounted to 15.9 million tons, nearly all of which originated in Japan and Western Europe.

7. In the first ten months of 1969, shipments of steel by Japan and Western Europe to the United States amounted to 10.8 million tons, or about one-fifth less than those during the same period in 1968. The reduction in the physical volume of shipments to the United States can be explained, in part, by the "voluntary agreement" of Japan and the countries of Western Europe to limit such shipments. There is little doubt, however, that booming world-wide demand for steel in 1969 facilitated this adjustment. Because of the high demand for steel in 1969, the surplus capacity of so much concern to the steel industries of the Free World in 1968 quickly evaporated. The increase in Soviet demand for Free World steel in 1969 (probably no more than one-half million tons above the level of 1.1 million tons in 1968) can be regarded as only a minor factor in the overall growth in demand for Japanese and West European steel.

Problems of the Soviet Steel Industry

8. Although they are reflected only partly in its import program, serious problems have developed in the Soviet steel industry. One has been the continuing slowdown in rate of growth. In 1969, Soviet production of crude steel probably fell about 2 million tons short of planned output of 112.6 million tons. Moreover, because of cumulative shortfalls during the first four years of the current five-year plan (1966-70), the 1970 goal already has been reduced to 115 million tons, considerably less than the original goal of 124-129 million tons announced in 1966. Thus the average annual rate of growth during 1966-70 apparently will be only 4.8% compared with 6.9% achieved during 1961-65.

9. Probably of greater significance than the lagging rate of growth in aggregate production is the disappointing performance of the steel industry in its programs to broaden the assortment of steel products and to improve their quality. One result has been a shortage of specific types of steel products, such as cold rolled sheet, large-diameter pipe, and special pipe and tubing for the chemical and petroleum industries. Failure to increase the assortment and quality of steels also has slowed the pace of modernization of the products of the machine building and other metal-consuming industries. For example, in the fabrication of machinery and equipment, the USSR has lagged behind the rest of the world in the general shift away from the use of heavy iron and steel castings to the use of lightweight weldments made from sheet and plate. Failure to make desired improvements in the quality of electrical sheet has resulted in high energy losses in power transformers. Results also have been unsatisfactory in programs to economize on the use of steel by producing lighter, stronger, and more durable types of structural steel.

10. One explanation for the shortcomings of the Soviet steel industry is underfulfillment of investment plans. Total investment in ferrous metallurgy during 1966-69 is estimated at less than 7 billion rubles (old prices), compared with the original plan for 1966-70 of 11.8 billion rubles, later reduced to 10.8 billion rubles. The funds

actually expended have obtained for the USSR less than optimum results because they have been dispersed over a large number of projects and the volume of uncompleted construction in ferrous metallurgy has increased considerably in recent years. Because of these investment shortfalls and inefficiencies, construction of new capacity has lagged in all sectors of the industry, including the mining of iron ore and the production of pig iron, crude steel, and rolled steel. Of these, the shortfalls in rolling and finishing capacity have been the most crucial.

11. Lags in the construction of new capacity and in the introduction of new technology can in turn be traced to the failure to devote sufficient resources to the machine building industry, which needs additional specialized capabilities for the design and manufacture of modern metallurgical equipment. The principal and most persistent difficulties have been encountered in the production of rolling mills and finishing equipment such as heat treating facilities, electrolytic tinning and galvanizing lines, and sheet and strip processing equipment.

12. The industry also has been hampered by difficulties in attaining rated capacity at newly completed facilities. In some cases these difficulties result from imbalances at the plant in question. The steelmaking furnaces at some plants operate at less than capacity because of deficiencies in rolling and finishing capacity. At other plants, rolling mills are utilized at less than capacity because of a lack of steel making furnaces. In many cases, the difficulties are technical. Some new equipment does not work properly and expensive and time-consuming modifications must be made. For example, an extremely large hot strip mill at the Novo Lipetsk steel plant has been completed for several months but plant personnel have not yet been able to make it operate effectively.

13. Although the Soviet steel industry has not completed all the facilities planned for making large-diameter pipe, this failure alone is not the cause of the USSR's need to import large amounts of such pipe. The USSR's plans for construction of gas

and oil pipelines require a supply of pipe that would far exceed the capacity of the pipemaking facilities needed for follow-on programs in subsequent years.

Prospects for Imports

14. According to current indications the USSR will continue to import substantial quantities of steel during the next several years. Imports from the Free World, in particular, probably will increase over the levels of 1968 and 1969. In 1970, such imports could easily exceed 1.5 million tons and may even approach 2.0 million tons. Imports in excess of 2.0 million tons would be surprising, however. As in the past, the USSR probably will restrict purchases from hard currency countries to essential types of steel in short supply in the USSR and not available in other Communist countries.

15. Large-diameter pipe figures most prominently in Soviet plans for steel imports from the Free World. In 1970, roughly 200,000 tons of large-diameter pipe will be imported from Austria to complete deliveries on an order for a total of over 500,000 tons. A contract is under negotiation with West Germany for delivery of 1.2-1.4 million tons of large-diameter pipe during 1970-72. Another contract with Italy calls for delivery during 1970-74 of an estimated 500,000 tons of large-diameter pipe. Contracts also are under negotiation with France and Japan for perhaps 1 million tons of such pipe, with most deliveries probably sought for the early 1970s.

16. The USSR probably will continue to import cold rolled sheet for the manufacture of automobiles. Requirements will not be particularly high in 1970, however, because the goal for production of automobiles, trucks, and buses calls for an increase of less than 100,000 units over 1969. Soviet officials have estimated that the new Fiat plant will produce only 30,000 cars during 1970. Only some 15,000 tons of cold rolled steel would be required for the manufacture of this number of Fiats. Such requirements will increase in the next several years but probably not dramatically, judging by plans for expansion of production of motor vehicles. Technical difficulties currently hampering the domestic program for production of cold rolled sheet eventually will be resolved and the USSR will overcome its current dependence on imports.

Conclusions

17. Soviet imports of steel in 1968, amounting to nearly 2.2 million tons, were marginally greater than the previous high, and preliminary data for 1969 indicate a further modest increase over 1968. Imports from the Free World in 1968 were 1.1 million tons and may have reached 1.5 million tons in 1969. These are small amounts compared with Soviet production of finished steel, which in 1969 amounted to 76 million tons.

18. The minor increase in imports that apparently occurred in 1969 cannot be ascribed primarily to the failure of the USSR to achieve its annual plan for increasing crude steel production. Imports of steel appear to be a rational means of covering shortfalls in the production of selected varieties of finished steel and steel products, some of which were anticipated and some not. The most important of these in 1969 were cold rolled steel and large-diameter pipe. Large-diameter pipe will constitute the bulk of imports from the Free World. This pipe will materially assist in the completion of a very large program of oil and gas pipeline construction. In the case of cold rolled steel for automobiles and consumer durables, technical difficulties now hampering expansion of capacity should be resolved in time and the need for such imports will be reduced.

19. Imports of steel from the Free World may approach 2 million tons in 1970 and are likely to continue at something like that level for the next few years. This volume, however, represents only a small fraction of the export market for Free World steel production. The Soviet market is not likely to provide a large outlet for Free World steel during future periods.